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Date 4/12/93
Surname [REDACTED]

JAN 28 1993

[REDACTED]

[REDACTED]
[REDACTED]

Employer Identification Number: [REDACTED]
Key District: [REDACTED]

Dear Applicant:

We have considered your application for recognition of exemption from federal income tax under section 501(c)(6) of the Internal Revenue Code. We have determined that you fail to qualify for exemption under that section of the Code. Our reasons for this conclusion and the facts upon which it is based are explained below.

The information you have submitted indicates that you were established for the purpose of sharing among the members of the corporation, information, philosophies, ideas and techniques regarding the automobile and automobile part manufacturing business (i.e., production systems, management systems) and in general to conduct its work, not for profit, but as a business league within the meaning of Section 501(c)(6) of the Code.

Section 501(c)(6) of the Code provides for the exemption from federal income tax of business leagues which are not organized for profit and no part of the net earnings of which are not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(6)-1 of the Income Tax Regulations provides that a business league is an association of persons having some common business interest, the purpose of which is to promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit.

The activities of the organization must be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons. An organization whose purpose is to engage in a regular business of a kind ordinarily carried on for profit, even though the business is conducted on a cooperative basis or produces only sufficient income to be self-sustaining is not a business league.

There are several characteristics that an organization must possess in order to meet the requirements of 501(c)(6). Those characteristics are:

(1) It must be an association of persons having some common business interest, and its purpose must be to promote this common business interest;

(2) It must not be organized for profit;

(3) No part of its net earnings may inure to the benefit of any private shareholder or individual;

(4) Its activities must be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons;

(5) Its purpose must not be to engage in a regular business of a kind ordinarily carried on for profit, even if the business is operated on a cooperative basis or produces only sufficient income to be self-sustaining.

For exemption purposes, a line of business is a trade or occupation, entry into which is not restricted by a patent, trademark, or similar device which would allow private parties to restrict the right to engage in the business. A "segment" of a line of business is not considered a line of business under Section 501(c)(6) of the Code.

National Muffler Dealers Association v. U.S., 440 U.S. 472 (1979), holds that an association of a particular brand name of muffler dealers does not qualify for exemption because the association is not engaged in the improvement of business conditions of a line of business.

Rev. Rul. 58-294, 1958-1 C. B. 244, holds that an association of licensed dealers in a certain type of patented product did not qualify as a business league where the association owned the controlling interest in the corporation holding the basic patent, was engaged mainly in furthering the business interests of its member-dealers, and did not benefit people who manufactured competing products of the same type covered by the patent.

Rev. Rul. 67-77, 1967-1 C.B. 138 holds that an association of dealers selling a particular make of automobile which engaged in financing general advertising campaigns to promote the sale of that particular make was held not exempt because it was performing particular services for its members rather than promoting a line of business, i.e., the automotive industry as a whole. Membership in the organization was restricted to dealers who held franchises for the sale of the automobiles designated in the area. Restriction of membership precludes exemption under section 501(c)(6) of the Code.

The holding also states that an organization applying for exemption under section 501(c)(6) of the Code should have activities that are directed towards the improvement of business conditions of one or more lines of business; as distinguished from the performance of particular services which are not entitled to exemption under section 501(c)(6).

Rev. Rul. 74-147, 1974-1 C.B. 136 holds that a nonprofit whose members represent diversified businesses that own, rent, or lease digital computers produced by various manufacturers, and that is organized to improve the efficiency of its members' use of computers, qualifies for exemption under section 501(c)(6) of the Code. The organization provided a forum for the exchange of information that was available for use by members and other interested users, and thus improve the overall efficiency of the business operations of each.

Rev. Rul. 83-164, 1983-2 C.B. 95 holds that an organization whose members represent diversifies businesses that own, rent, or lease computers produced by a single computer manufacturer does not qualify for exemption under section 501(c)(6) of the Code. The organization in this Rev. Rul. is distinguishable from the one described in Rev. Rul. 74-147.

While members of both organizations have a common business interest concerning the use of computers, the organization in Rev. Rul. 74-147 directs its activities to users of computers made by diverse and competing manufacturers, while the organization in instant Rev. Rul. directs its activities to users of computers made by one manufacturer. This serves as an economy and a convenience to the members in performing their individual business, a particular service within the meaning of section 501(c)(6) of the Code. Hence the organization did not qualify under section 501(c)(6).

[REDACTED]

The information you have submitted indicates that you share amongst the members information, philosophies, ideas and techniques regarding the automobile and automobile part manufacturing business (i.e., production systems, management systems). You have stated that you are not intended to directly benefit an entire industry. You contend that you are organized to benefit all the components of an industry within a geographic area, namely the automotive industry in [REDACTED].

To support your conclusion that you are organized to benefit all the components of an industry within a geographic area, you point to the fact that [REDACTED] is the only manufacturer in [REDACTED] which utilizes a "[REDACTED] style" inventory and production system. Therefore since [REDACTED] is the only manufacturer in [REDACTED] which utilizes a "[REDACTED] style" inventory and production system, [REDACTED] represents the entire component of that industry within the [REDACTED] area.

Your conclusion that [REDACTED] represents the entire component of the industry within the [REDACTED] area, is incorrect because you are only operating a "segment" of a line of business rather than a component of an industry. The "[REDACTED] style" inventory and production system is only one segment of automobile production. It can not be considered a line of business. Your analysis of "all components of an industry within a geographic area" does not meet the requirements of what constitutes a line of business under section 501 (c)(6) of the Code.

Additionally, your membership is restricted to suppliers of [REDACTED]. Please note that under section 501 (c)(6) of the Code your activities must be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons. A restrictive membership precludes exemption under 501 (c)(6). (See Rev. Rul. 67-77, 1967-1 C.B. 138.)

Your case is distinguishable from that of the organization described in Rev. Rul. 74-147, because that organization provided a forum for the exchange of information that was available for use by members and other interested users, and thus improved the overall efficiency of the business operations of each. Your information, philosophies, ideas and techniques regarding the automobile and automobile part manufacturing business (i.e., production systems, management systems) will only benefit your members.

Accordingly, we have concluded that the holdings in the case law and the Rev. Rul.'s. cited above are applicable and you do not qualify for exemption under section 501(c)(6) of the Code.

[REDACTED]

You have the right to protest this ruling if you believe it is incorrect. To protest, you should submit a statement of your views, with a full explanation of your reasoning. This statement, signed by one of your officers, must be submitted within 30 days from the date of this letter.

You also have a right to a conference in this office after your statement is submitted. You must request the conference, if you want one, when you file your protest statement. If you are to be represented by someone who is not one of your officers or directors, that person will need to file a proper power of attorney and otherwise qualify under our Conference and Practices Requirements.

If we do not hear from you within 30 days, this ruling will become final and copies will be forwarded to your key District Director. Thereafter, any questions about your federal income tax status or the filing of tax returns should be addressed to that office.

When submitting additional letters with respect to this case to the Internal Revenue Service, you will expedite their receipt by placing the following symbols on the envelope: [REDACTED]. These symbols do not refer to your case but rather to its location.

cc: [REDACTED]

Sincerely yours,

[REDACTED]
[REDACTED]
Chief, Exempt Organizations
Rulings Branch 4

[REDACTED]
1/14/93

[REDACTED]
1/22/93